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Message Text

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ACTION EA-12

INFO OCT-01 ISO-00 XMB-02 PA-01 PRS-01 CIAE-00 DODE-00
NSAE-00 NSCE-00 SSO-00 USIE-00 INRE-00 ACDA-12
INR-07 IO-13 L-03 EB-08 NRC-05 OES-07 SOE-02
SS-15 SP-02 TRSE-00 OMB-01 AID-05 PM-05 /102 W
----------004883 130941Z /15
O R 130847Z JAN 78
FM AMEMBASSY SEOUL
TO SECSTATE WASHDC IMMEDIATE 8680
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INFO DOE ERDA WASHDC
DOE ERDA GERMANTWON

C O N F I D E N T I A L SEOUL 0304

DEPT PASS TO EXIM BANK

E.O. 11652: GDS
TAGS: BENC, MNUC, EFIN, FR, GW, KS
SUBJECT: MAJOR PROJECT - FINANCING FOR KECO NUCLEAR PLANTS

REF: SEOUL 0176

1. THIS MESSAGE UPDATES INFORMATION PROVIDED BY REFERENCE CABLE ON NEGOTIATIONS BETWEEN KOREA ELECTRIC COMPANY (KECO) AND PROSPECTIVE NUCLEAR AND BALANCE-OF-PLANT EQUIPMENT VENDORS FOR THE KORI THREE AND FOUR NUCLEAR POWER PLANTS. WE ALSO WOULD LIKE TO RAISE THE ISSUE OF PROBABLE U.S. VENDOR DISADVANTAGE VIS-A-VIS A EUROPEAN SUPPLIER WHICH APPARENTLY ENJOYS MORE FAVORABLE EXPORT FINANCING FOR ITS PRODUCTS.

2. THE FINANCING ADVANTAGE CURRENTLY HELD BY B.B. C. OF SWITZERLAND OVER BOTH THE U.S. FINALISTS EMPLOYING THE U.S. EXIM TERMS DEFINED IN THE PC PROVIDED TO KECO APPEARS TO BE OF A SUBSTANTIAL NATURE. WE UNDERSTAND THAT KECO,IN THE FINAL NEGOTIATIONS WITH RUBINE/GENERATOR SUPPLIERS,
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PLANS TO RAISE THE ISSUE WITH EXIM DIRECTLY. KECO NEGOTIATIONS WITH G.E. AND WESTINGHOUSE AS WELL AS B.B.C. AND G.E.C. (U.K.) ARE NOW SLATED TO BEGIN ON 16 JANAURY WITH KECO INTENDING TO SIGN A LETTER OF INTENT BY 23 JANUARY AND A CONTRACT BY EARLY FEBRUARY AT THE LATEST. WE UNDERSTAND FROM RELIABLE COMMERCIAL SOURCES THAT THE KECO TURBINE/GENERATOR BID EVALUATION

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AS IT NOW STANDS PLACES BOTH U.S. SUPPLIERS AT A SUBSTANTIAL NEGOTIATING DISADVANTAGE. WHILE THE B.B.C. OFFER IS ABOVE THOSE OF G.E. AND WESTINGHOUSE BY A FACTOR OF $2-4 MILLION THE SWISS GOVERNMENT ORGANIZED AND GUARANTEED LOAN CONDITIONS PROVIDED AN OVERALL PROJECT COSTING ADVANTAGE OF SEVERAL MILLIONS OF DOLLARS. WHILE THE U.S. EXIM AND SWISS LOAN TERMS ARE ABOUT EQUAL (CONSTRUCTION GRACE PLUS TWELVE YEARS REPAYMENT) THE SWISS RATE IS SIX PERCENT AS OPPOSED TO THE U.S. RATE OF EIGHT POINT FIVE PERCENT. KECO'S TERMS/CONDITIONS ASSESSMENT PROCESS HAS REDUCED THE TRUE OR ACTUAL INTEREST FACTORS (INCLUDING MANAGEMENT FEES AND ASSOCIATED COSTS) TO A SWISS OVERALL ADVANTAGE OF .75 PERCENT (8.5 PERCENT FOR U.S. AND 7.75 PERCENT FOR SWISS). ASSUMING B.B.C. HOLDS ITS HIGHER COST BID DURING ITS NEGOTIATIONS WITH KECO (AND THIS IS UNLIKELY) THE BOTTOM LINE ADVANTAGE TO B.B.C. DUE ALMOST EXCLUSIVELY TO THE BETTER FINANCING PACKAGE WILL BE SEVERAL MILLION DOLLARS. WHILE ADMITTEDLY THIS EVALUATION DOES NOT TAKE INTO ACCOUNT THE STRONG POSITION OF THE SWISS FRANC AND THE LIKELIHOOD ITS CONTINUED APPRECIATION VIS-A-VIS THE DOLLAR WILL GENERATE GREATER TOTAL COSTS FOR KECO WE HAVE NO VIDENCE THAT KECO WILL GIVE THIS FACTOR ANY CONSIDERATION IN ITS PENDING DECISION.

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3. WE UNDERSTAND THAT SENIOR OFFICIALS OF BOTH WESTINGHOUSE AND G.E. WILL CONTACT EXIM OFFICIALS OVER PERIOD 14-18 JANUARY TO ENCOURAGE EXIM TO IMPROVE ITS CONDITIONS ON THE TURBINE/GENERATOR LOAN PACKAGE SO AS TO PROVIDE U.S. FIRMS A MORE QUAL FINANCIAL BASE FROM WHICH TO BARGAIN THEIR EQUIPMENT AGAINST B.B.C. AND G.E.C. FOR ITS PART, KECO MAY ALSO CONTACT EXIM TO RAISE THE ISSUE IN A SIMILAR THOUGH NOT IDENTICAL VEIN. KECO CAN BE EXPECTED TO PRESS FOR AN ACROSS-THE-BOARD LOAN CONDITION IMPROVEMENT TO LOWER ITS COSTS ON THE ENTIRE PROJECT. AT THIS POINT WE ARE CONFIDENT THAT THE NUCLEAR SIDE COMPETITION IS EXCLUSIVELY U.S. WITH WESTINGHOUSE (WRD) AND COMBUSTION ENGINEERING (CE) PRESENTLY ENGAGED IN A BATTLE TO THE WIRE.

4. WITH THE COMPETITION ON NSSS EQUIPMENT BEING ENTIRELY U.S. WE SEE NO ADVANTAGE IN IMPROVING THE CONDITIONS OF THE ENTIRE PACKAGE BUT WE DO FEEL THAT EXIM, TO ASSURE A FAIR COMPETITIVE POSITION FOR U.S. SUPPLIERS, SHOULD CONSIDER ADJUSTING SLIGHTLY ITS TERMS ON THAT PORTION OF THE LOAN DEDICATED TO THE

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TURBINE/GENERATOR COMPONENT BID. APART FROM THE DATA
OFFERED IN PARA 2 ABOVE WE DO NOT HAVE ANY INFORMATION
RELATED TO THE SWISS LOAN PACKAGE WHICH WILL ALLOW
EXIM TO ASSESS THE DIMENSIONS OF TIS POSSIBLE READJUST-
MENT BUT IT WOULD APPEAR THAT BOTH U.S. SUPPLIERS ARE
INTERESTED IN WORKING WITH EXIM TO IMPROVE THE COLLEC-
TIVE COMPETITIVENESS OF THE U.S. OFFERS. AT THIS
POINT IT MIGHT BE SUFFICIENT FOR EXIM BANK TO INDICATE
TO KECO AND THE ROK GOVERNMENT (THROUGH ECONOMIC
COUNSELOR YANG IN WASHINGTON) THAT EXIM BANK WOULD BE
WILLING TO CONSIDER IMPROVING ITS CONDITIONS IF THOSE
LOAN CONDITIONS FIGURE SIGNIFICANTLY IN ASSIGNING
U.S. VENDORS INFERIOR POSITIONS IN THE EVALUATION OF
BOTTOM LINE TURBINE/GENERATOR COSTS. WE WOULD ADD
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THAT ANY ADJUTMENTS WHICH EXIM MIGHT CONSIDER SHOULD
BE IMITED TO THE TURBINE/GENERATOR BID AS WE APPEAR
TO BE IN A STRONG SALES POSITION FOR NSSS IRRESPECTIVE
OF LOAN COSTS TO KECO. ALSO, WE NOTE THAT THIS
MESSAGE IS INTENDED ONLY AS AN ALERT TO EXIM THAT
U.S. MANUFACTURERS AND KECO PLAN TO APPROACH THE BANK
ON THE SUBJECT AND THAT WHILE WE HAVENOT YET FULLY
SUBSTANTIATED THE FACT OUR LOAN TERMS ARE LESS COMPETITIVE THIS
POSSIBILITY DOES APPEAR TO BE A FACTOR ENJOYING
CONSIDERABLE LOCAL ATTENTION.
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